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FSB reports on correspondent banking and remittances

Further progress has been made in implementing the FSB's coordinated four-point action plan on correspondent banking since the progress reports sent to the Hamburg G20 Summit. Attached are two reports, which are presented here for endorsement at the March 2018 G20 Finance Ministers and Central Bank Governors meeting:

- **the latest progress report on implementing the correspondent banking action plan and**
- **the stocktake requested by the G20 of remittance service providers' access to banking services, together with recommended actions to address remaining issues.**

These reports describe promising areas to further address identified issues:

- The Wolfsberg Group (members include 13 major correspondent banks) published in February 2018 a Correspondent Banking Due Diligence Questionnaire, which will support a more standardised collection of information on respondent banks. The Basel Committee on Banking Supervision (BCBS), Committee on Payments and Market Infrastructures (CPMI), Financial Action Task Force (FATF) and FSB have made a joint statement welcoming the questionnaire as one of the industry initiatives that will help to address the decline in the number of correspondent banking relationships. The questionnaire is part of a cooperative effort by the public and private sectors to recognize Know-Your-Customer (KYC) utilities as an effective and efficient tool to support KYC. G20 members are asked to support this work.

- The stocktake on remittances identifies a variety of intertwined drivers for the termination of banking services to remittance service providers, including profitability, the perceived high risk of the remittance sector from an AML/CFT perspective, general poor supervision of remittance service providers and, in some jurisdictions, weak compliance with international standards, particularly those relating to AML/CFT.

  Better application of the risk-based approach as discussed in the FATF Recommendations and better supervision and oversight of the remittance sector, including communication of supervisory approaches and strategies, are critical actions to mitigate banks' perception of uniformly high risk for the sector. Technical innovations may also mitigate some drivers, although they are unlikely in the foreseeable future to provide entire solutions that completely address all drivers of so-called "de-risking".

  The stocktake makes recommendations in four areas: (i) to promote better dialogue between stakeholders and better practices in the remittance sector, (ii) to improve the implementation of international standards and oversight of the remittance sector; (iii) to

encourage the use of innovation to facilitate remittance firms' greater access to banking services; and (iv) to encourage technical assistance related to remittances. The FSB, FATF, GPFI and IMF/World Bank will coordinate to monitor take-up of the recommendations and report back to the G20 in July 2019.

The progress report on correspondent banking also presents the latest additional steps including:

- publication in March 2018 of an update of global data on correspondent banking relationship, using data provided by SWIFT as of end-June 2017.
- further steps to promote coordination of domestic capacity building to improve and build trust in the supervisory and compliance frameworks of affected jurisdictions.
- work on technical solutions aimed at improving the efficiency of due diligence procedures and reducing compliance costs.

The data, as of mid-2017, reported in the March 2018 report shows that the reduction in the number of correspondent banking relationships continued at the global level in the first half of 2017. Changes varied across regions. While the average number of direct relationships between countries started increasing in North America and Eastern Europe, the decline continued in all other regions: the pace of decline slowed in Africa and Oceania, but increased in the Americas (excluding North America), Asia and Europe (excluding Eastern Europe). While there are no "silver bullets", the actions taken to date under the coordinated FSB action plan are intended to reverse the global decline. But, in order to do so, they will need to be followed up by national authorities and the banking industry.

The FATF and BCBS issued guidance in 2016 and 2017, respectively, to clarify regulatory expectations at the international level. It is very important that this is followed up by action by national authorities to publicise and use the guidance at the national level. The FATF and BCBS are following up on their guidance with a joint exercise to assess the traction and transmission of the guidance by national authorities. Results of this assessment will be available later this year.

In addition, work needs to continue to implement industry initiatives that follow up on CPMI recommendations, such as KYC utilities, the recently published option to include the Legal Entity Identifier in payment messages and the industry standards on the use of these messages.

More broadly, the FSB Correspondent Banking Coordination Group will continue to monitor issues and actions relating to correspondent banking, and will draw to the attention of the FSB Plenary issues where discussion of possible further steps would be useful.